

The Relationship of Customer orientation, customer Satisfaction, customer loyalty and innovation in Small and medium enterprises

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Abstract: SMEs are always in the forefront of economic policy debate, and governments consider them to be one of the engines of growth in developing countries. Customer satisfaction is a fundamental determinant of long-term consumer behavior. Customer satisfaction has gained very much attention in the last few decades in all areas of production. In an increasingly competitive and dynamic environment, greater attention is continuously paid to customer relationships and satisfied customers. Employee's customer orientation is an important antecedent of their perceived empowerment. Literature on innovation indicates that over the last two decades, there has been a systematic and fundamental change in the way firms undertake innovative activities. In particular, there has been a tremendous growth in the use of external networks by firms of all sizes. Innovation is seen as a process which results from various interactions among different actors. How small and medium-sized enterprises (SMEs) effectively internationalize and achieve greater firm performance is an important question. SMEs play an increasing role in international trade and economic growth. Advances in information technology and globalization are leading to SMEs that are more active in international markets than ever before.

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1. Introduction

Customer satisfaction is the consumer's fulfillment response. It is a judgment that a product or service feature, or the product of service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, including levels of under- or over-fulfillment (Oliver 1999). Consumer satisfaction is an attitude change resulting from the consumption experience (McCullough et al. 2000). Kang and James (2004) found that the technical and functional dimensions of service quality are both important predictors of customer satisfaction. Lassar et al. (2000) reported that both dimensions influence overall satisfaction, although they found stronger evidence for the effect of functional quality. Improving customer satisfaction has been identified as one of the major challenges in the whole construction industry in the recent decade. A number of reports have highlighted the need for a change, greater efficiency and stronger client focus in the construction industry (Egan, 1998). It is stated that improved contractor performance leads to increased customer satisfaction and improvement in the reputation of contractors and, hence, their competitiveness in the market (Xiao and Proverbs, 2003). Pinto and Rouhiainen (2001) define a shift in customer focus from striving to maximize the company's profits in a

project by optimizing the utilization of the company's resources in order to attain a goal of superior service to the customer towards maximizing the value of the customer's project by meeting the goals mutually agreed upon. Customers are often seen as the basis of a company's profitability (Gupta et al., 2004; Hogan et al., 2002; Rappaport, 1998). This has led to a customer-centric view in marketing theory as well as in practice. The efficient allocation of limited resources to maximize value requires focusing on relationship-oriented customers and strong, long-lasting customer retention (Rust et al., 2005). According to Gronroos (1990), customer-perceived service quality has two dimensions: the functional dimension (process), which denotes "how" in the customer-seller interaction and the technical dimension (outcome), which relates to "what" in the actual service provision. Evidence supports the notion that service management is concerned with not only the technical but also the functional quality (Gronroos, 1998; Kang, 2006; Reichel et al., 2000).

Customer orientation has been shown to have a positive impact on performance at both the company (Narver and Slater, 1990) and salesperson (Sujan et al., 1994; Donovan et al., 2004) levels. Such findings support the fundamental tenet of the marketing concept. Marketing research suggests that acquiring a

new customer is more expensive than retaining an existing one (Bitran and Mondschein, 1997) and focusing on current customers is the right strategy, especially on those that provide a positive lifetime profitability relationship (Morgan and Hunt, 1994; Palmer, 1995). However, some simple lifetime-profitability relationships can be doubted (Dowling and Uncles, 1997) and a different treatment of customers with adjusted marketing tools is advisable (Garbarino and Johnson, 1999). As markets become more competitive many companies recognise the importance of retaining current customers and some have initiated a variety of activities to improve customer loyalty. Indeed, the benefits associated with customer loyalty are widely recognised within business. These include lower costs associated with retaining existing customers, rather than constantly recruiting new ones especially within mature, competitive markets (Ehrenberg and Goodhardt, 2000). How small and medium-sized enterprises (SMEs) effectively internationalize and achieve greater firm performance is an important question. SMEs play an increasing role in international trade and economic growth. Advances in information technology and globalization are leading to SMEs that are more active in international markets than ever before (Knight, 2001).

2. The relationship between interaction orientation and customer satisfaction

The idea of interaction orientation was first developed by Kumar and Ramani (2006), who stated that it reflects a firm's ability to interact with its individual customers and to take advantage of the information obtained from them through successive interactions in order to achieve profitable customer relationships. Interaction orientation in this study represents restaurants' ability to interact with individual diners and obtain information from them to maintain profitable and long-term relationships. It is composed of four main elements, as follows: (1) The concept of the customer, (2) Interaction response capacity, (3) Customer empowerment, and (4) Customer value management. Achieving a high level of customer orientation is an important organizational goal. Past research indicates that customer orientation is related to positive outcomes for the firm. Customer orientation has typically been measured by self-reports from service employees. Customer orientation has been shown to have a positive impact on performance. Improving customer satisfaction has been identified as one of the major challenges in the whole construction industry in the recent decade. Customer satisfaction has gained very much attention in the last few decades in all areas of production. Innovation management and customer orientation have been widely recognized as key factors in enhancing the business performance.

Meanwhile, customer satisfaction is the consumer's fulfillment response. It is a judgment that a product or service feature, or the product of service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, including levels of under- or over-fulfillment (Oliver 1999). Consumer satisfaction is an attitude change resulting from the consumption experience (McCullough et al. 2000). Satisfaction in this study is thus conceived as a fulfillment response employed to understand and evaluate the consumer dining experience. Kumar and Ramani (2006) proposed that interaction orientation leads to high levels of customer satisfaction. For instance, studies have shown that empowering individual customers to develop their own unique experience enhances their satisfaction (Pralhad and Ramaswamy 2004; Urban 2004). Ramani and Kumar (2008), in a survey of 211 samples in 107 firms, found that a superior interaction orientation is likely to result in greater customer satisfaction.

3. Customer orientation

An internal customer orientation should be part of an organisational culture, and guide the attitudes and behaviors of organisation members to deliver quality to other employees (Lukas and Maignan, 1996). By embracing an internal customer orientation into the organisational culture, newcomers to the organisation will learn consistent standards and objectives in this regard (Lukas and Maignan, 1996). Customer orientation can be defined as "the set of beliefs that puts the customer's interest first, while not excluding those of all other stakeholders such as owners, managers, and employees, in order to develop a long-term profitable enterprise" (Deshpandé et al., 1993). As mentioned earlier, Brown et al. (in press) described customer orientation as a personality variable that reflects the service worker's disposition to meet customer needs. Schneider and Bowen (1995) propose that "nearly everyone seems to believe that employees must have a 'certain kind of personality' to be good at service work." Recent research indicates that it is imperative to hire service employees predisposed to a service, or customer orientation. According to Kotler, Brown, and Makens (1996), "If you want friendly, courteous service, you must hire friendly, courteous people . . . It is possible to provide employees with the technical skills needed for the job, but difficult to train them to be friendly and caring." Additionally, Fromm and Schlesinger (1993) point out that "personality is probably the most important factor . . . in making a hiring decision for almost any service job."

4. Customer satisfaction

Customer satisfaction has gained very much attention in the last few decades in all areas of production. In an increasingly competitive and

dynamic environment, greater attention is continuously paid to customer relationships and satisfied customers (Eriksson and Vaghukt, 2000). For companies, customer satisfaction is an effective way to differentiate themselves from competitors and gain competitive advantage (Woodruff, 1997) but it is also one of the key issues in their efforts towards improving quality (Fornell et al., 1996). Most researchers agree that customer satisfaction refers to an attitude or evaluation formed by a customer comparing pre-purchase expectations of what they would receive from the product or service to their subjective perceptions of the performance they actually did receive. Measures of overall customer satisfaction typically capture consumer expectations towards the service provided, as well as how far the provided service is from their ideal (see Soderlund, 2006) Customer satisfaction is a fundamental determinant of long-term consumer behavior (cited in Cooil et al., 2007). In order to control customer defection, most companies focus on managing customer satisfaction (cited in Cooil et al., 2007). Satisfaction is often used as a predictor of future consumer purchases (Newman and Werbel, 1973; Kasper, 1988.) Satisfied customers have a higher likelihood of repeating purchases in time (Zeithaml et al., 1996), of recommending that others try the source of satisfaction (Reynolds and Arnold, 2000; Reynolds and Beatty, 1999), and of becoming less receptive to the competitor's offerings (Fitzell, 1998).

Customer-preferred dimensions identified by Manrai and Manrai (2007) were, in order of importance:

(1) personnel-related considerations (attitudes and behaviour of tellers and other staff, procedures for handling complaints, appearance of staff);

(2) financial considerations (interest earnings, interest payments);

(3) branch environment-related considerations (atmospherics); and

(4) convenience-related considerations (ATMs, opening hours).

5. Customer loyalty

Loyal customers are indeed crucial to business survival (Reichheld and Schefer, 2000). For that reason many companies use defensive marketing strategies to increase their market share and profitability by maximizing customer retention (Tsoukatos and Rand, 2006). Much research in the last two decades has investigated the various definitions of loyalty (Jacoby and Chestnut, 1978). They argue that there must be a strong "attitudinal commitment" to a brand for true loyalty to exist (e.g. Jacoby and Chestnut, 1978). This is seen as taking the form of a consistently favorable set of stated beliefs toward the brand purchased. If the consumer believes that a brand

has desirable attributes, s/he will have a more favorable attitude toward it. These attitudes then may be measured by asking people how much they like the brand, feel committed to it, will recommend it to others, and have positive beliefs and feelings about it (Donio et al., 2006). It has also been found that attitudinal loyal customers are much less susceptible to negative information about the brand than non-loyal customers (Donio et al., 2006). The most widely accepted definition of loyalty is by Jacoby and Kyrer (1973), who describe loyalty as the biased (i.e. non-random), behavioural response (i.e. purchase), expressed over time, by some decision making unit, with respect to one or more alternative brands out of a set of such brands, and is a function of psychological (i.e. decision making, evaluation) processes. However, Oliver (1999) criticises this and similar definitions (Dick and Basu, 1994), based on the collective failure to provide a unitary definition and the reliance on three phases; cognition, affect and behavioural intention. These three phases lead to a deeply held commitment, predicting that consumers develop loyalty in a linear fashion. Oliver (1999) places greater emphasis on situational influences adding a fourth phase, action characterized by commitment, preference and consistency while recognising the dynamic nature of the marketing environment.

6. Innovation in Small and medium enterprises

SMEs are always in the forefront of economic policy debate, and governments consider them to be one of the engines of growth in developing countries. Literature on innovation indicates that over the last two decades, there has been a systematic and fundamental change in the way firms undertake innovatory activities. In particular, there has been a tremendous growth in the use of external networks by firms of all sizes. Innovation is seen as a process which results from various interactions among different actors. According to Damanpour (1991), organizational innovation combines the development and implementation of new ideas, systems, products, or technologies. Literature conceptualizes innovation in a variety of ways in the literature, as a process, and outcome of both (North et al., 2001; Rogers, 1995; Wolfe, 1994). However, most of the definitions of innovation share the idea that innovation implies the adoption of a new idea or behavior. Literature also distinguishes different types of innovation. The classification most extended and accepted is the one Damanpour (1991) proposes. He distinguishes between technical and administrative innovations. Whereas technical innovations include a new process and new products or services, administrative innovations refer to new procedures, policies and organizational forms (Evan, 1966). Innovation transfer is of continuous interest in the study of multinational

corporations. It is generally assumed that innovation development and the subsequent intra-corporate transfer will positively affect the business activities of recipient units located elsewhere (e.g., Cantwell, 1991). However, whilst this assumption has rendered extensive research on the efficiency and effectiveness of the transfer process (Hong, Snell, & Easterby-Smith, 2009), less research have considered the impact on the recipient unit's business performance. Innovation can occur in three broad domains; products, processes, and organizations, and is "an idea, product or process, system or device that is perceived to be new to an individual, a group of people or firms, an industrial sector, or a society as a whole" (Rogers, 1995).

7. Conclusions

Employee's customer orientation is an important antecedent of their perceived empowerment. In other words, the more employees describe themselves as customer oriented, the more they felt confident about their job performance and meaningfulness of their jobs. Customer orientation influences both innovativeness and innovation behavior. Innovation behavior enhances financial performance and customer retention. Achieving a high level of customer orientation is an important organizational goal. Past research indicates that customer orientation is related to positive outcomes for the firm. The contribution of this study is to further extend the previous findings on customer orientation in two major ways. We know that customer orientation positively impacts global, functional, and technical service performances as measured by supervisors (Brown et al., in press; Donovan et al., 2001). Additionally, firms benefit from customer-oriented employees by gaining satisfied and committed employees (Donovan et al., 2001). Previous research contended that the front-line employee plays a crucial role in the effectiveness of empowerment in the hospitality industry (Lashley, 1999; Jha and Nair, 2008). Customer orientation has typically been measured by self-reports from service employees. Future research should replicate the Dunlap et al. (1988) study by comparing customer orientation as reported by employees to customer-oriented behaviors as witnessed by customers. While this was not the purpose of our study, this comparison across service industries would have important managerial implications. How small and medium-sized enterprises (SMEs) effectively internationalize and achieve greater firm performance is an important question. SMEs play an increasing role in international trade and economic growth. Advances in information technology and globalization are leading to SMEs that are more active in international markets than ever before.

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